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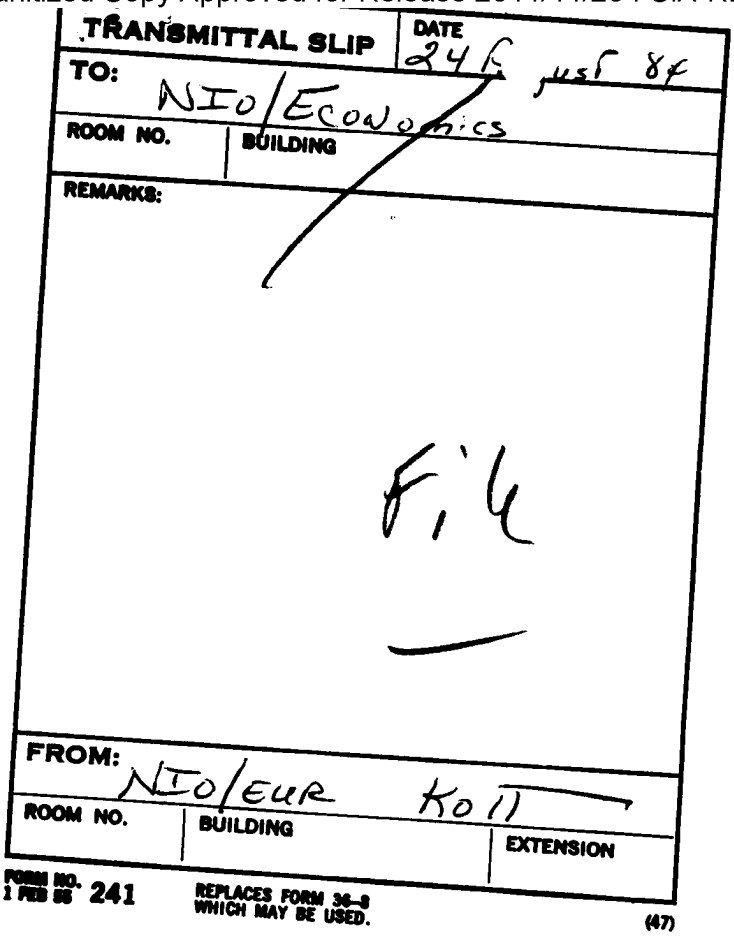

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Poland
24 Aug 84

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The Director of Central Intelligence
Washington, D.C. 20505

National Intelligence Council

NIC No. 04888-84
24 August 1984

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

FROM: George Kolt
National Intelligence Officer for Europe

SUBJECT: NSC Meeting of 28 August 1984 on Poland and the IMF

1. The purpose of the meeting is to discuss how "complete and reasonable" the recently proclaimed Polish amnesty has been and to consider a likely scenario for the renewal of negotiations over possible Polish membership in the IMF. The real issues involved are (1) whether Poland has moved far enough to meet Western conditions to allow the West, and particularly the US, to begin lifting sanctions which have prevented new official credits from being extended to Poland and have probably discouraged some private lending; and (2) what we can expect of renewed negotiations over Poland's application to join the IMF. My understanding is that you will be asked to provide a briefing on the first issue and possibly the second as well. Proposed talking points for your use are attached at Tab A.

2. The precipitating event for the NSC meeting was Jaruzelski's July amnesty for political prisoners which seemed to meet a Western condition for lifting some of the sanctions imposed in December 1981. In response the State Department lifted the sanctions dealing with scientific and cultural exchanges and with Polish airline flights to the US. It also wanted to drop US opposition to negotiations over Polish membership in the IMF. (My understanding is that this last move was originally opposed by Secretary Shultz but that the heavy lobbying of some lower State Department officials eventually changed his mind) However, State Department's high-handed and unilateral handling of the IMF issue aroused the ire of Treasury (and personally of Secretary Regan) which has jurisdiction over IMF issues. Some NSC officials

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sympathetic to the Treasury view set up a meeting between the President and Secretaries Shultz and Regan. A compromise public statement was worked out to the effect that if the amnesty proved to be "complete and reasonable" the USG would consider dropping its opposition to negotiations over Polish membership in the IMF. State Department officials have told me that they have privately gone beyond this statement and already told the Poles that we would most likely drop our opposition. These same officials are now trying to produce a joint paper with Treasury instead of the separate State and Treasury papers which were originally tasked for the meeting. It will be inserted at Tab B when received. What we may thus be seeing is a move toward a compromise whereby State would be given freedom to decide whether to drop the sanction but Treasury would then be responsible for all future dealings with IMF on the issue. I expect that OSD will oppose the lifting of the IMF sanctions.

3. Poland has not made its views clear on IMF. Its application has been in abeyance since 1981 and it has not formally attempted to revive it. It has told the US that it rejects any linkage between political conditions and its IMF application. In discussions with the Paris Club, it has talked about a repayment schedule which assumed IMF credits of about $3 billion in the next three years. It thus appears to want IMF membership and be waiting for an opportune time to revive its application. But even if negotiations over its membership go relatively smoothly, it is unlikely to get more than $500 million by the end of 1985. Credits after that will depend on IMF views of the Polish performance. (More details on this issue in the form of Talkings Points are at at Tab A-2).

4. For intelligence, the analytical issue involved is whether Poland has moved far enough to meet Western conditions to justify lifting the IMF sanction and in effect condoning the gradual flow of new credits into Poland. It is addressed at Tab A-1. In brief my belief is that although Jaruzelski has lifted martial law and freed political prisoners he has done so with proviso that prevent the initiation of a national dialogue and will most likely result in new arrests before the year is out. The lifting of the IMF sanction therefore does not appear warranted.

5. There are, however, arguments for lifting the sanctions:

-- IMF credits will improve Poland's ability to service its current debts. Right now its total debt is $27 billion. Its economy is probably in worse shape than it was in 1981: martial law disrupted economic activity, the workforce is more disaffected than ever, the much ballyhooed economic reforms have not taken place, Western sanctions have hurt, and the Soviet Union - instead of helping - seems to have increased its pressure for more

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balanced trade between the two countries and for higher defense spending. Nevertheless Poland has reached agreements with banks under which it has been repaying the interest on its debts but the banks have been refunneling most of these repayments back into Poland in the form of new credits. As far as governments are concerned, however, Poland has repayed nothing to the US since 1981 and little beyond only the interest on the principal due on its 1981 debt to other countries . It has said it will only reschedule its 1982, 83 and 84 official debts if it gets new credits, apparently including some $3 billion it expects to get from the IMF in the first years of membership. Thus Poland is $11 billion dollars in arrears in payments to Western governments (1.7 billion to the US alone). In effect IMF membership would allow Poland to take some international money to repay some governments and would probably encourage some private Western lending institutions to grant it new credits. (One financial argument against membership is that Poland's bankrupt economy would divert resources from countries which the US would find in its interest to support. But our analysts estimate that, contrary to Polish expectations, Poland's drawings in the first year or so would be limited to about 500 million dollars and therefore not divert substantial IMF monies.)

-- IMF membership would set up an official Western surveillance mechanism over the Polish economy. But it would not provide a lever which the West could use to force Jaruzelski to undertake some political reforms, even though this was the initial justification of some State Department officials for trying to lift that sanction. It is precisely this State expectation which aroused the ire of Treasury which wants to keep IMF a purely financial and economic body.

-- The liberation of political prisoners provides a clear peg point to lift the IMF sanction.

-- Our allies are getting uneasy with the IMF sanction. The UK and the FRG have already approached us to lift it. They probably hope that IMF membership would facilitate agreement on the rescheduling of Poland's official debts and are being pressured by some bankers to allow this new flow of official money into Poland. The Pope has also recommened directly to the President that the US lift all its sanctions. He feels they have outlived their usefulness and are hurting the Polish people unduly.

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-- The lifting of the IMF sanction, which affects more than just the USG and Poland, would diminish Poland's ability to use the US as a scapegoat for not paying its other creditors. (Lower-level Treasury officials are particularly taken by this argument.)

-- Even if the IMF sanction is lifted the USG would still have five other sanctions in place: no MFN, no agricultural credits, no official credits, no Ex-Im bank line, no exception on technology transfers.

6. In my view the arguments for lifting sanctions do not outweigh the negative. Jaruzelski has met the form but not the spirit of the condition. Perhaps more important, why should we facilitate the flow of credits to a government which has shown itself the faithful servitor of Moscow? In addition an IMF package alone -- even with stringent conditions -- would not lead Poland out of its economic morass nor enable it to start repaying its creditors in acceptable fashion. IMF credits alone will simply make the Polish repayment maneuvers a bigger shell game. To get Poland on the road to recovery will take a much more comprehensive approach -- of which IMF would be only a part. Before we lift the IMF sanction we should at least consider among ourselves and with our allies if we can devise such a package.

7. If we are unable to do so (and I admit the prospect is not bright) then I think we should be prepared to move on the IMF sanction -- primarily because if we stonewall I think allied unity on the issue will break down to our mutual detriment. But rather than lift the sanction outright we should do so along the following lines:

-- First we should tell our allies we are prepared to lift the IMF sanction when (1) all prisoners (including Lis and Mierzejewski) are released, (2) when Poland has repaid its 1981 debt to us, and (3) when it has entered into serious negotiations in the Paris Club over rescheduling its 1982, 1983, and 1984 debts. I think the Allies will be sympathetic to this view.

-- After outlining this approach to our Allies and hopefully obtaining their cooperation, we should inform the Poles of our proposal.

I do not know if there is still time to substitute this slower, and it seems to me more rational, approach in place of the current rush to lift the IMF sanction, but I think it is worth the try.

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7. In the preparation of this memorandum and talking points I have benefitted from discussions with representatives of the DDO and DDI analysts and EURA analysts provided specific information which form part of this package.

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George Kolt

Attachments:
Tab A. Talking Points
Tab B. State-Treasury Paper
Tab C. Poland Status of Political Restrictions

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NIC No. 04888-84
24 August 1984

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

FROM: George Kolt
NIO for Europe

SUBJECT: NSC Meeting of 28 August 1984 on Poland and the IMF

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TAB B

STATE - TREASURY paper

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Poland: Status of Polish Restrictions*
(Information as of 1 August 1983)

	Workers	Students and Educators	General
Eased or Lifted	Can change jobs, but could be forced to wait 6 months. (T) Can not be fired summarily for illegal protests, but can be fined. (P)		Passport restrictions eased; Poles may visit in the West if invited by friend or relative.
Maintained	46-hour work week can be required apparently at regular hourly rate. (T) Applicants must present labor certificate from previous employer. (T) Those who leave job without permission could be paid the lowest wages rate permissable in new position. (T) "Shirkers" still face possible imprisonment. Also can now be assigned to a labor-short sector. (T)		Anyone organizing or conducting an illegal protest action is liable to 3 years' imprisonment. (P*) Anyone disseminating tape recording or films that contain "false information which may cause grave damage" to Poland is liable to 5 years' imprisonment. (P*)
New Measures	Self-management bodies can be dissolved, instead of 6 month suspension. (T) Right to form alternative trade unions postponed indefinitely. (P)	Student organizations must be registered or approved by the Council of Ministers. (T) Resolutions passed by Higher Education Councils can be nullified by the Minister of Education. (T) University senates can be suspended for up to six months by the Minister of Education. (T) University administrators and faculty members can be directly fired or transferred and temporarily replaced by the Minister of Education. (T) University teachers can be fired if their "educational influence" undermines "socialist education of students." (P) Secondary school teachers can be fired by local governments. (T) University students can be expelled by the Minister of Education. (T) Students' assemblies can be suspended by local governments. (T)	Leadership boards of associations can be replaced temporarily pending elections. (T) Meetings can be suspended by local governments if considered "threat to public order." (T) Chairman of State Council may introduce state of emergency in part or all of Poland if internal security threatened. (P) Police have greater latitude to use weapons and to search citizens and vehicles. (P) Anyone participating in an organization which was dissolved or refused legal status liable to 3 years' imprisonment. (P) Citizens subject to military courts for "serious crimes against the state" (terrorism, conspiracy, sabotage, subversion, and dissemination of propaganda opposed to the alliances). (P) Anyone posting anti-state handbills, posters, or drawings subject to fines or imprisonment. (P) Censorship extended to art and photographic exhibits, trade union publications, and scientific and academic papers and their bibliographies. (P)

*Does not include restrictions lifted in December 1982.
(T) = Temporary regulations in effect until 31 December 1985.
(P) = Permanent legislation approved by Parliament 28 July 1983.
(P*) = Permanent legislation added to Penal Code, December 1982.

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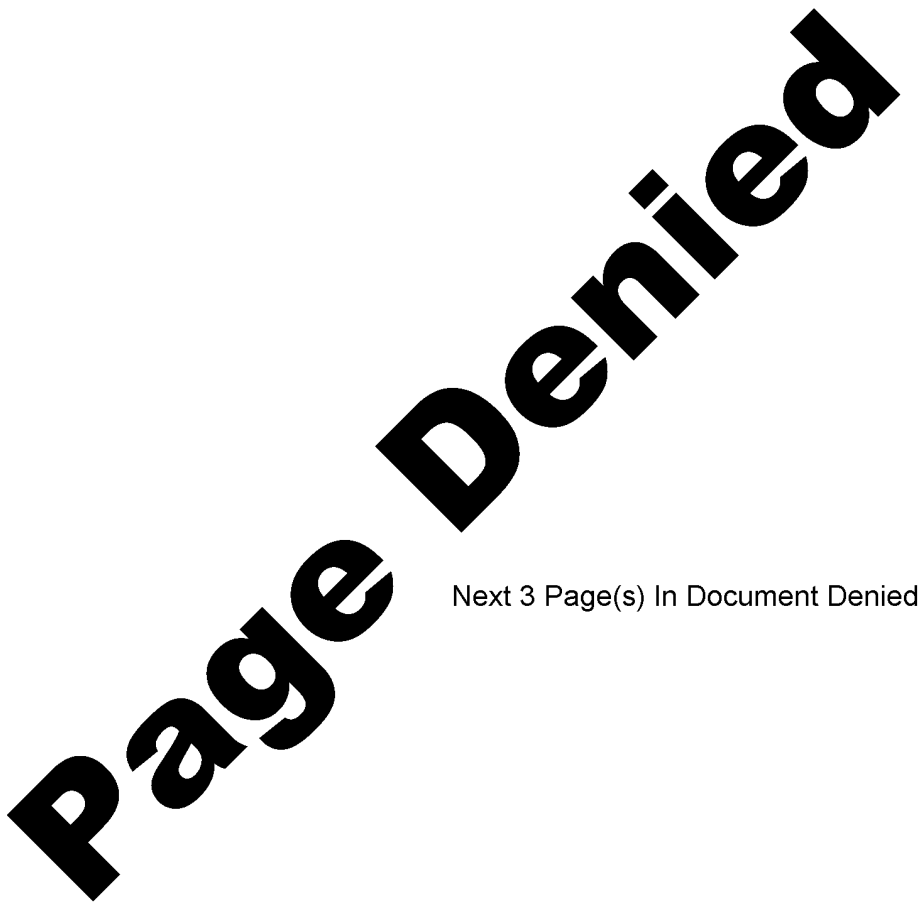

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